# Consultation

# Sea Link – Project Assessment

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| Contact: | Large Transmission Project Delivery |
| Team: | Major Projects Directorate |
| Email: | MajorProjects.LTPD@ofgem.gov.uk |

We are consulting on our Project Assessment (PA) of the National Grid Electricity Transmission (NGET) Sea Link[1] project. This is a project under the Accelerated Strategic Transmission Investment (ASTI) mechanism in the RIIO-3 Price Control Framework. At the PA stage, we review and ultimately set revenue and outputs associated with delivery of an ASTI project.

[1] Sea Link | National Grid – Sea Link and the Project are used interchangeably in this document to refer to the Sea Link project, NOA code SCD1.

# Contents

# Executive summary

## ASTI framework

The British Energy Security Strategy set out the Government's ambition to connect up to 50GW of offshore generation to the electricity network by 2030[2]. Facilitating this ambition will require significant reinforcements to the onshore electricity transmission network and ongoing changes to the current regulatory framework in order to accelerate delivery of large projects.

As such, in December 2022 we published a decision to introduce a new Accelerated Strategic Transmission Investment (ASTI) framework[3]. We set out the initial list of ASTI projects, our decision on exempting strategic projects from competition, the new process for assessing and funding ASTI projects and the range of measures being introduced to protect consumers against additional risks that changing the process brings.

Sea Link is one of the projects included in the ASTI framework[4] being delivered by NGET. It is also included among the list of major projects[5] to enable the government's Clean Power 2030 Action Plan. It is expected to play an important role in reducing network constraints, facilitating the integration of low-carbon generation and delivering wider consumer benefits, particularly on the heavily utilised network on the east coast. The National Energy System Operator's (NESO's) Clean Power 2030 advice identified the project as an investment required in order to allow the Government's clean power objectives to be reached. The importance of acceleration of the Project has been highlighted due to the considerable consumer benefits of early delivery, with NESO modelling suggesting consumer benefits of £1.1-£1.4bn[6] if it can be brought forward to 2030.

## Summary of our minded-to position on the Sea Link PA

This consultation sets out our minded-to position for the Sea Link project following NGET's PA submission.

We are minded to remove £245.3m from NGET's requested total project cost of £2,567.0m, resulting in a final allowance of £2,321.7m for NGET to deliver the Project (all in 2018/19 prices). This corresponds to a disallowance of £305.5m from NGET's requested total cost of £3,197.0m, resulting in a final allowance of £2,891.5m to deliver

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[2] British energy security strategy | GOV.UK British Energy Security Strategy published under the 2019 to 2022 Johnson Conservative government

[3] Decision on accelerating onshore electricity transmission investment | Ofgem

[4] Decision on accelerating onshore electricity transmission investment | Ofgem

[5] NESO Clean Power 2030 | Annex 2

[6] NESO Clean Power 2030 | Annex 2: Networks, connections and network access analysis

the project in 2023/24 prices. A summary of the key drivers of this adjustment is provided in Table 1.

This includes £1,943.6m of direct Engineering Procurement & Construction (EPC) costs, £101.4m of direct non-EPC costs, and £522.1m of indirect costs including risk (all in 2018/19 prices). This equates to £2,420.5m of direct EPC, £126.3m in Direct non-EPC costs, and £650.2m of indirect costs including risk in 2023/24 prices. All costs are in this document are 2023/24 prices unless stated otherwise[7].

During our review of Sea Link, we identified costs relating to areas of uncertainty and have set out different ways to address and fund these should they materialise, including a proposed provision for a mechanism to provide funding for additional acceleration measures, in view of the substantial acceleration benefits of the project. Sea Link has a December 2031 ASTI Output Delivery Incentive (ODI) Target Date.

Lastly, we are minded-to maintain a Cost and Output Adjusting Event (COAE) threshold of 5% for the Project.

## Next steps

After considering responses to this consultation, we will publish a full decision on the PA for NGET as well as our proposed modifications to NGET's electricity transmission licence to support delivery of the project.

[7] Under RIIO-ET2, costs and allowances were commonly assessed in 2018/19 prices. Under RIIO-ET3, the equivalent assessment price base is 2023/24 prices. The Sea Link PA was submitted in the RIIO-ET2 price control, but the decision will fall in RIIO-ET3. We present both bases in this document for consistency and to facilitate comparison.

# 1. Introduction

This section summarises what we are consulting on and provides an overview of Sea Link and background information.

## Purpose of this consultation

1.1 This consultation sets out our minded-to position and seeks stakeholder views on the PA for Sea Link:

- Chapter 2 covers the main cost areas of the PA request as submitted by NGET.
- Chapter 3 sets out our minded-to position on the funding allowance for each of the cost areas.
- Chapter 4 summarises next steps and our expected timescales for a further publication on our decision.

1.2 Our assessment and minded-to position set out in this document are subject to our consideration of any consultation responses and we invite stakeholders to respond using the contact details set out on the front of this document.

## Context and related publications

1.3 The GB onshore electricity transmission network is planned, constructed, owned and operated by three Transmission Owners (TOs): NGET in England and Wales, Scottish Power Transmission (SPT) in the south of Scotland, and Scottish Hydro Electricity Transmission (SHE-T) in the north of Scotland.

1.4 In December 2022, we decided to introduce the new ASTI regulatory framework. This framework assesses, funds and incentivises the accelerated delivery of the large, strategic onshore transmission projects required to deliver the government's ambition to connect up to 50GW of offshore wind generation to the network by 2030.

1.5 Related publications are set out below:

- Decision to modify the Special Conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem
- Decision on accelerating onshore electricity transmission investment | Ofgem
- Sea Link- Decision on Early Construction Funding and Modification to special conditions of the electricity transmission licence

## Overview of ASTI re-opener mechanism

1.6 The ASTI framework applies to the electricity transmission projects listed at Appendix 1 of our ASTI implementation decision of August 2023[8] as they had been found to meet certain criteria as set out in that publication.

1.7 The initial 26 ASTI projects were identified by the NESO in the Holistic Network Design[9] (HND) and NOA 7 Refresh[10] as required to deliver the Government's 2050 net zero ambitions, and the ASTI framework applies to Sea Link as one of the initial 26 Electricity Transmission projects identified.

1.8 PA is the final stage of the ASTI framework. The PA review determines the efficient allowance to deliver the project, including the efficient costs of construction, risk contingencies, project management, and any other elements of delivery.

## Background

1.9 Sea Link is one of NGET's major strategic infrastructure project that forms part of NGET's 'Great Grid Upgrade' programme consisting of 17 strategic investment projects. The Project is intended to increase transfer capability between Suffolk and Kent to support the connection of a large volume of offshore wind and other low-carbon generation. Two new converters stations will be constructed, one in Suffolk close to the proposed Kiln Lane (formerly Friston) substation and the other in Kent near Richborough. These converter stations will be connected via a 2GW High voltage direct current (HVDC) circuit traversing both on and offshore, ultimately connecting into the AC transmission network at either end.

1.10 The PA sets out the scope of work which will form part of the ASTI Output as defined in NGET's licence.

[8] Decision to modify the special licence conditions in the electricity transmission licences: Accelerated Strategic Transmission Investment | Ofgem
[9] A Holistic Network Design for Offshore Wind | National Energy System Operator
[10] NOA Refresh 2021-22.pdf

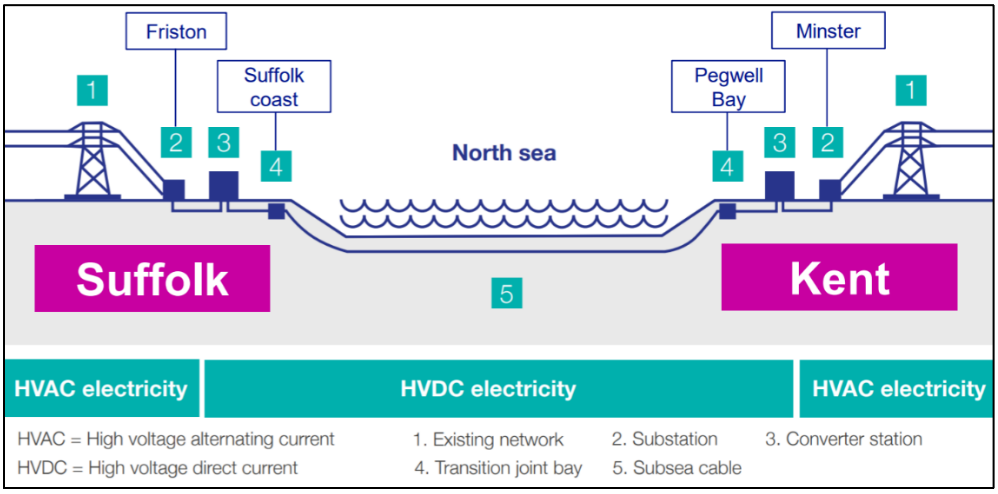


**Figure 1: Sea Link Project**

1.11 Sea Link's scope of work consists of:

- HVDC infrastructure:
    - Two, 2GW 525kV Voltage Sourced Converter (VSC) stations, one near Saxmundham, Suffolk and one near Minster, Kent.
    - 136km HVDC 525kV cable pair consisting of:
        (a) 12km HVDC onshore cable in Suffolk.
        (b) 122km HVDC offshore cable in the southern North Sea, (Aldeburgh / Thorpeness to Pegwell Bay).
        (c) 2km HVDC onshore cable in Kent.
        (d) Transition Joint Bays (TJB) at both ends of the offshore cable approximately 800m inshore.
- High voltage alternating current (HVAC) infrastructure:
    - Three new gas insulated switchgear (GIS) bays at the new Kiln Lane substation to facilitate the connection to the transmission network in Suffolk[11].
    - 2km HVAC 400kV cables (two circuits, six cables in total) connecting the Suffolk converter station to Kiln Lane substation.
    - New Minster 400kV substation in Kent (packaged for construction within the scope of converter station EPC contract).

[11] The construction of the Kiln Lane substation comprises several elements, including three new bays and a customer connection. However, for the purposes of PA funding, only the three new bays are included.

- Overhead line (OHL) works in Kent comprising:
    - Reconductor of the PC route approximately 21km in length between Richborough and Canterbury 400kV substations.
    - Uprating of the 400kV cross site cabling at Canterbury 400kV substation.
    - Removal of a section of approximately 2km of existing PC Route OHL to be replaced with an approximately 3.5km long, with 9 new towers, section of OHL to form the turn-in to the Minster 400kV substation.
- Such further work as may be required to ensure NGET's compliance in respect of Sea Link with Grid Code CC.6.1.5 (including Engineering Recommendation 5/5) which outlines the technical, design and operational criteria which licensees must meet regarding voltage waveform quality in respect to harmonic content and phase unbalance and ensure the link can work at its designed full capacity of 2GW. Compliance with these requirements set out above must be achieved for the Project's Outputs under the licence to be considered successfully delivered.[12]

1.12 We note the Project must operate at its designed specification of 2GW full capacity, while ensuring network compliance with applicable Grid Code requirements in relation to harmonics, to be considered successfully delivered. Any derating of the circuit due to related wider or localised harmonic issues as a result of the Project will result in Outputs of the Project under its licence not being achieved. We will consider how this requirement should best be reflected in the licence deliverables, including alongside the setting of ongoing availability standards for the Project.

1.13 In June 2025, NGET made an application for Early Construction Funding (ECF) under Part C of SpC.341 of its licence, to enable funding of early construction activities for the project. Post consultation, NGET's ECF application of 48%[13] of the project's cost as recorded in NGET's license was approved[14].

1.14 The final PA was submitted in January 2026 by NGET with some supplementary information received from NGET in the period following its submission.

## Harmonics

1.15 Harmonics are electrical waveform distortions that can affect the secure and reliable operation of the transmission system if not appropriately managed.

[12] The solutions must comply with the Grid Code as referenced above, alongside all applicable codes, standards and obligations. More context on the harmonics issue and how NGET is intending to resolve it is set out in paragraphs 1.12 and 1.15–1.19 below.
[13] Unless otherwise agreed by Ofgem, the maximum level of ECF that Ofgem will allow is 20 per cent of each project's forecast cost, as indicated in our ASTI decision. However, exceeding this amount is permitted in exceptional circumstances where it is in the interest of the consumer to do so. Our ECF decision concluded that such circumstances were applicable to Sea Link.
[14] Sea Link - Decision on Early Construction Funding and Modification to special conditions of the electricity transmission licence

During the detailed design and procurement of Sea Link, NGET identified power quality challenges associated with connecting the Project in an area of the network with significant connection activity. The harmonic studies undertaken indicated that, even with the largest filter solutions proposed by bidders on the Project, compliance with applicable harmonic limits was unlikely to be achieved under all system conditions.

1.16 NGET has therefore identified the need for additional harmonic system studies to inform what mitigation measures are required beyond those currently included within the EPC contract proposals. Further investigations are ongoing to determine the appropriate specification and location of further harmonic filters or other solutions as may be identified. We understand that the activities proposed by NGET in this PA do not fully resolve the harmonics issue. NGET anticipates that additional activity is required elsewhere on the transmission network to resolve this issue and ensure compliance with applicable requirements following Sea Link's energisation at its intended 2GW operating capacity, although the precise scope and location will depend on the solution identified. Such actions may include wider reinforcement or additional harmonic mitigations. NGET expects to identify the appropriate solution through ongoing studies and has committed to take these forward using alternative funding mechanisms to ensure this where appropriate.

1.17 In considering the proposed harmonics solution, Ofgem notes that NGET is required to comply with Grid Code CC.6.1.5 which outlines the technical, design and operational criteria for which licensees must comply (inc. Engineering Recommendation 5/5) regarding voltage waveform quality in respect to harmonic content and phase unbalance.

1.18 We consider that addressing the identified harmonics issue is a necessary component of delivering the Outputs and consumer benefits associated with Sea Link. In order for the Sea Link project to have been fully delivered and NGET's Price Control Deliverable to be met, the project would need to be compliant with all applicable requirements in codes, standards, licences and legislation, including the applicable requirements in relation to harmonics outlined above, ensuring the transmission capacity and operational performance the project is intended to deliver is not impacted, and its expected consumer outcomes are delivered. We expect NGET to engage with Ofgem throughout the development of its proposed solution and keep us informed of any key developments.

1.19 We will also consider the interaction between the harmonics solution and relevant project performance availability requirements we may set across the ASTI portfolio.

## ASTI Uncertain Cost Reopener (AUCR)

1.20 As indicated in previous PA decisions, the AUCR is being developed to provide a route for TOs to apply for funding at a later stage for specific cost items that are agreed as eligible during the PA process ('Eligible Cost Areas'). The purpose of the mechanism is to address cost areas where efficient costs remain subject to significant uncertainty at the time of PA, where the TO has justified the need for these costs to be set later and demonstrated it would not be in consumers' interests to include them within ex ante project allowances.

1.21 Eligibility under the AUCR does not represent a commitment to or guarantee of future funding. Rather, it establishes a route by which a TO may apply for funding at a later stage, when costs are more certain, with any funding request subject to further assessment of the efficient incurred costs, supporting evidence and justification, demonstrating compliance with the relevant requirements of the mechanism.

1.22 We currently expect to consult on the design and introduction of this mechanism later this year.

## Planning update

1.23 At the time of publishing this consultation, the Secretary of State has not issued a decision on the Sea Link Development Consent Order (DCO) decision. The DCO decision, which is expected later this year, is expected to provide information regarding the project's consented scope and any conditions attached to the development. We intend to take the consenting status of the project into account when publishing our decision on the PA.

## Consultation stages

**Stage 1** Consultation opens: 1 September 2026

**Stage 2** Consultation closes (awaiting decision). Deadline for responses: 29 September 2026

**Stage 3** Responses reviewed and published: Autumn 2026

**Stage 4** Consultation decision/ policy outcome: Autumn 2026

## How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

## Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click ‘Get emails about this page’, enter your email address and click ‘Submit’.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

# 2. Requested cost allowances

This section details the funding requested by NGET in its submission. These are stated in 2023/24 prices unless stated otherwise.

2.1 The total allowance requested for Sea Link is £3,197m with direct costs totalling £2,546.8m and indirect costs (including risk) totalling £650.2m.

2.2 This section sets out the main parts of the funding requested by NGET in its submission. It includes the proposed project allowances regarding direct construction costs, indirect costs and risk, as well as the request to adjust the COAE threshold.

## Direct construction costs

2.3 NGET has requested £2,420.5m of funding for direct EPC works required to deliver the Sea Link project. This is comprised of the HVDC converter package (£1,374.1m), the HVDC cable package (£849.9m) and the Sea Link share of the Kiln Lane GIS substation works (£25.6m). The Canterbury to Richborough OHL works are excluded from the PA submission and are therefore not included in the requested EPC allowance.

2.4 The HVDC converter package represents the largest element of the EPC request. NGET states that the package was procured through its HVDC Converter Framework and awarded to Siemens following a competitive tender process. The scope includes construction of converter stations at Saxmundham and Minster as well as substation works at Minster. NGET states that the final contracted price reflects market-tested rates, negotiated commercial outcomes and current market conditions for HVDC equipment and construction services.

2.5 NGET has requested £849.9m for the HVDC cable package, which covers the manufacture and installation of offshore HVDC cables and associated onshore alternating current (AC) and direct current (DC) cable works. The package was competitively procured and awarded to Sumitomo. NGET states that the final contract value reflects market-tested pricing and current supply chain conditions.

2.6 NGET's contracts include a significant proportion of costs that are subject to contractual Price Adjustment Mechanisms (PAMs). PAMs are contractual agreements that allow costs to be adjusted post contract award in line with pre-agreed indices[15]. Unlike general inflation assumptions, PAMs directly link cost adjustments to specific underlying drivers, such as commodity prices or labour

[15] These indices include commodity, industry and inflation specific indices.

indices, ensuring that contract prices remain aligned with actual market movements over the delivery period.

2.7 Approximately 55% of the converter package, and 46% of the cable package has been secured on a fixed-price basis and the remainder subject to agreed indexation arrangements. NGET considers these mechanisms necessary to secure supply chain participation and manage exposure to commodity and inflation risks over the delivery period.

2.8 NGET has also requested £25.6m for the Sea Link share of the Kiln Lane GIS substation works. This funding relates to the delivery of three GIS bays within the new 21-bay Kiln Lane 400 kV substation. NGET states that it proposes to deliver these works through its Great Grid Partnership (GGP) model. The requested funding includes costs associated with project and design management, GIS equipment, protection and control systems, civils works, commissioning activities, contractor risk and fee provisions, and GGP core services. NGET considers this approach the most appropriate route to ensure delivery of the required substation infrastructure within the project programme.

2.9 NGET has requested £170.8m for unlet scope under contract costs. This comprises of transport cost of additional items in Saxmundham and Suffolk (£10.8m) and Kent (£2.1m), insurance premium (£54.4m), existing substation feeder protection and control upgrades at Kent (£5.3m), permanent wastewater licenses at Kent and Suffolk (£5.2m), enabling works, diversions and new supplies (£11.2m), onshore unexploded ordinance (UXO) probe and survey (£6.7m) and offshore UXO campaign (£21.2m), archaeology site strip and mitigation (£51.7m), and contract changes and adjustments (£2.2m). NGET stated that these costs were associated with post-award design developments, agreed technical changes, and site-specific issues that were identified or finalised after contract award. NGET stated that, where appropriate, it would seek to incorporate additional scope through contract variations where this represented an efficient delivery approach, with any remaining activities procured directly through the market in a cost-efficient manner.

2.10 The archaeology site strip and mitigation costs amounting to £51.7m represents a large part of the unlet scope costs. NGET stated that these costs relate to site strip map and record, mitigation, trial trenching, and outreach activities at the sites of Kent and Suffolk. NGET stated that the final scope of the archaeology mitigation will be confirmed following the DCO decision and agreement of written schemes of investigation with the relevant county archaeologists. Hence, NGET has included high level estimates prepared by an experienced contractor.

2.11 The UXO campaign (£27.9m) consists of the offshore UXO campaign (£21.2m), and onshore UXO probe and survey (£6.7m). NGET stated that these include costs related to comprehensive UXO surveys and probing across the converter station sites, and onshore cable routes in Suffolk and Kent. It also includes offshore and nearshore survey works, identification of third-part assets, inspection and removal of any confirmed UXOs along the cable route. NGET stated that the costs have been based on initial surveys, past projects and current frameworks in place however these are estimates and the actual targets identified could vary.

## Direct non-EPC costs

2.12 NGET has requested £126.3m of direct non-EPC funding for Sea Link. These costs relate to activities that are directly attributable to delivery of the project but are not delivered through the main EPC contracts. They include project mobilisation, planning and consenting activities, land acquisition and compensation, environmental mitigation measures, engineering support and sustainability initiatives.

### Sustainability initiatives

2.13 NGET has included £23.1m of funding for sustainability initiatives within its direct non-EPC cost submission. NGET states that these costs reflect sustainability measures aligned with its wider commitments.

### Biodiversity Net Gain

2.14 Biodiversity Net Gain (BNG) is an approach to development and land management that aims to leave biodiversity in a better state than it was before. It involves calculating biodiversity losses and gains from development projects, with the goal of enhancing the natural environment. NGET's submission states that it has committed to deliver a net gain of at least 10% or greater in environmental value (including biodiversity) on all its construction projects which is in line with upcoming legislation for Nationally Significant Infrastructure Projects (NSIPs).[12]

2.15 NGET has requested £19.9m to deliver the 10% or greater environmental value BNG. Its submitted estimate used market rates for biodiversity units and was based around initial delivery plus 30 years of management and maintenance.

### Marine restoration

2.16 NGET has included £7.0m for marine restoration activities. According to the PA submission, these costs relate to marine restoration and seabed remediation measures arising from offshore construction activities. NGET states that these costs reflect increased certainty regarding mitigation requirements following environmental assessments and the expected development of marine licence and DCO requirements.

[12] The Biodiversity Net Gain Statutory Instruments | GOV.UK

### Community benefits

2.17 NGET did not request funding for community benefits as part of its PA submission, noting that any community benefits funding is expected to be delivered through separate arrangements outside the scope of the PA process.

## Indirect costs and risk

2.18 NGET has requested £650.2m for indirect costs and a P80 level of confidence contingency risk allowance required for the project based on the TO's probabilistic modelling of risk outcomes. The requested P80 risk allowance amounts to [redacted] and forms part of the overall £650.2m request.

2.19 NGET requested [redacted] for indirect costs funding for Sea Link. These costs relate to project management and staff, specialist support, IT mobilisation, engineering, and ASTI overhead activities.

### Indirect costs

2.20 NGET has requested in its submission [redacted] in Closely Associated Indirect (CAI) costs to support project management and execution activities. This consists of staff costs of [redacted], specialist support costs of [redacted], mobilisation IT costs of , engineering onshore-DCO discharge costs of [redacted], and ASTI overhead activity costs of [redacted]. The ASTI overhead costs are NGET's strategic investment overheads, a central cost hub set up to enable the delivery of the ASTI portfolio.

### P80 level of confidence risk funding

2.21 NGET has requested an upfront risk funding allowance of [redacted], equivalent to a P80 confidence level within its probabilistic assessment of Sea Link's project risks.

2.22 Ofgem's approach is to normally fund projects to a P50 level of confidence. Cost confidence levels are a measure of confidence in the project's estimated costs constructed using probability. They are used to gauge the appropriate level of funding against the likelihood of the project being successfully delivered for a given cost.

2.23 A risk allowance costed at the P50 confidence level means that 50% of estimates exceed the P50 estimate and 50% of estimates are less than the P50, with P50 classed as a middle estimate. A P80 level of funding exceeds a P50 level as a greater volume and value of risk will be funded up front under P80, with a correspondingly greater likelihood that the project will be delivered within that cost estimate, but corresponding risk that the funding may not be required.

2.24 NGET considers P80 appropriate for Sea Link and has identified a number of factors which it considers increase the level of cost uncertainty associated with its delivery, stating that a P80 contingency allowance would:

- allow NGET to have higher confidence in schedule management
- allow NGET room to handle complex site challenges such as cable shore landings, associated horizontal directional drilling, and unexpected ground conditions.
- ensure discharge of DCO conditions
- protect against market volatility and supply chain disruptions including price increases and delivery lead time delays.
- provide greater assurance to stakeholders regarding budgeting for compliance related risks, delays or adjustments reflect a proactive approach to risk, reducing budget overruns or delays for the project.

## PAMs

2.25 PAMs are contractual mechanisms that adjust contract prices following award using pre-agreed industry indices linked to underlying cost drivers. The relevant costs are treated as pass-through by ex-post adjustment which is trued up on indices. For Sea Link, PAMs apply to elements of the EPC contracts where costs could not be fixed for the duration of the project at the time of procurement. Under these arrangements, contract prices may increase or decrease over time in line with movements in the relevant indices, with adjustments reconciled in accordance with the contractual terms.

2.26 NGET stated that the future impact of inflation and commodity price movements could not be estimated with sufficient confidence at the time of the PA submission and therefore requested that PAMs-related cost movements be considered through an uncertain cost reopener rather than through ex ante funding.

## COAE

2.26 Part E of SpC 3.41 provides for a COAE re-opener mechanism to adjust outputs and allowances in Appendix 1 to SpC 3.41 should there be a COAE, as defined in the licence.

2.27 NGET had taken an initial view in its submission that a threshold for triggering a COAE of 5% of project costs equivalent to £160 m (based on its requested allowance) was too high and that it would expose the project to individual unfunded risks. NGET therefore requested a COAE threshold of 0.65%, equivalent to £20.7 m.

2.28 In its PA submission, NGET requested 12 COAE risk events as eligible COAE events, having identified that it considers they could qualify as COAE events, providing a description of their respective triggers.

## Reopeners Requested

2.29 To mitigate unnecessary contingency costs, NGET has suggested and requested five specific cost re-openers without a qualifying materiality threshold for i) PAMs, ii) OHL re-stringing from Richborough to Canterbury, iii) hedging of contracts, iv) archaeology works, and v) UXO findings. NGET's justification for seeking these reopeners is as follows:

- **PAMs:** NGET has requested a reopener for PAMs relating to its cable and converter EPC contracts. NGET stated that the contractual obligation to revisit commodity and inflation movements introduces a level of uncertainty that is difficult to forecast accurately. Given the constrained HVDC supply chain and the use of contractual price adjustment clauses, NGET considers that PAMs-related costs should be managed through a reopener without a qualifying threshold rather than funded through ex-ante allowances, to reduce the risk of consumer over- or under-funding.

- **OHL re-stringing for the Richborough to Canterbury line:** The Richborough–Canterbury line is a reconductored and re-terminated 400 kV double circuit, integrated into a new Minster GIS hub, forming part of a wider HVDC-to-AC transition node that enables Sea Link power flows into the Kent transmission network. This includes the route comprising of cabling works for approximately nine new towers, tower turn-in arrangements and proposed uprating of the existing conductor. NGET provided an early cost estimate in its PA of [redacted], however the scope, design and delivery arrangements were not considered sufficiently mature to support a robust cost estimate at the time of submission. NGET therefore requested this to be funded through a reopener once the design and procurement had been completed.

- **Hedging of multi-currency contracts:** NGET stated that the Sea Link cable and converter contracts are exposed to foreign exchange (FX) risk. Given the contracts were awarded before the DCO decision, it proposed hedging future FX exposure in advance to provide cost certainty and protect consumers from currency volatility. NGET is seeking recovery of efficient hedging costs, including any costs which may be incurred from unwinding hedges in the event of project cancellation. Further information on the hedging process is described in Chapter 3.

- **Archaeology reopener**: This covers the cost of unexpected archaeological discoveries and associated mitigation measures beyond those assumed in the requested baseline allowance (£51.7 m). NGET stated that while the current funding request includes expected archaeology works, it excludes any potential cost and delay impacts of significant unforeseen finds, which cannot be fully quantified until construction and further archaeological investigations are undertaken. Hence, NGET is requesting a reopener as the appropriate cost recovery mechanism, in addition to ex ante funding.

- **UXO reopener:** This covers additional costs arising where actual offshore or onshore UXO findings exceed the assumptions underpinning the requested baseline allowance (£6.7 m requested for onshore probe and survey and £21.2 m for offshore UXO campaign). NGET's position is that, although allowances for survey and remediation are included in the PA, the number, nature and extent of UXO items ultimately requiring removal cannot be known in advance and could materially increase project costs, hence NGET is requesting a reopener as the appropriate cost recovery mechanism.

## Use it or lose it (UIOLI) allowance for programme acceleration

2.30 NGET is requesting an allowance of up to [redacted] for programme acceleration activities in relation to CP2030 benefits, which it proposes would be funded via a UIOLI mechanism, whereby any unused allowance would be returned to consumers.

2.31 This would provide a funding route for activities intended to accelerate the delivery of the project, which will in turn reduce constraint costs, with corresponding consumer benefits. It indicates these activities may include, among others, activities to accelerate marine works, factory acceleration activities, and innovative construction methods.

2.32 NGET considers that the specific acceleration measures that may be required, together with their associated costs and benefits, cannot be determined with sufficient certainty at the PA stage and has therefore proposed a UIOLI mechanism rather than seeking ex ante funding.

# 3. Minded-to position

This section explains our minded-to position on the PA request from NGET. It provides a summary of the total funding we are minded-to allow for the delivery of Sea Link and outlines our position on uncertainty mechanisms for the project.

Questions

Q1. Do you agree with our minded-to position on direct costs on Sea Link, specifically;

Q1.1 Do you agree with our minded-to position on direct construction costs?

Q1.2 Do you agree with our minded-to position on direct non-EPC costs?

Q1.2.1 Do you agree with our minded-to position on sustainability initiatives, BNG, and marine restoration costs?

Q2. Do you agree with our minded-to position on indirect costs on Sea Link?

Q3. Do you agree with our minded-to position on contingency funding on Sea Link, including our proposed treatment of COAE risks in view of other protections? Please provide any supporting information or evidence on the appropriate balance of risk between consumers and TOs, while incentivising risks to be managed to a level as low as practicable.

Q4. Do you agree with our minded-to position on the COAE threshold? If not, please provide any supporting information or evidence for any alternative approaches.

Q5. Do you agree with our minded-to position on Sea Link's re-opener requests, including our proposed treatment of costs associated with the 5 activity areas set out to be considered through the AUCR? Please provide any views on consumer protections which should be applied.

Q6. Do you agree with our proposal to use the proposed AUCR mechanism to fund justified further acceleration measures on Sea Link, in view of the substantial expected consumer benefits of accelerating its delivery?

Q7. Do you have views on any consumer protections which should be applied in relation to the mechanism for funding further acceleration measures, including setting a materiality threshold or expected benefit-cost ratio for actions under this mechanism?

3.1 In the previous section we outlined NGET's PA funding request and the reasons behind its submitted cost allowance request for Sea Link.

3.2 This section sets out our minded-to position on this PA submission. It outlines our views on the efficient allowances for the project across direct construction costs, indirect costs and risk, including our approach to the confidence level for contingency funding and our response to NGET's request for five 0% materiality threshold re-openers. It also clarifies our view on its requested COAE adjustment and UIOLI proposal for acceleration measures. Finally, it summarises the requested allowance and the total sum of funding we propose to allow.

3.3 We note that the ASTI framework was designed to support the timely delivery of strategic transmission investments while maintaining appropriate incentives on TOs to manage supply chain, procurement and cost risks to a level as low as reasonably practicable. We expect TOs to robustly demonstrate how they have ensured efficiency of costs across the PA.

3.4 Broadly, we consider the evidence provided in the PA and subsequent engagement indicated that a robust procurement process had been undertaken for the main works contracts, resulting in effective levels of competition for these works.

3.5 We are, however, concerned that the range of multi-layered risk protections sought across the PA is excessive, which is reflected in our minded-to assessment.

3.6 In summary, against the total requested project allowance of £3,197 m, we are minded-to allow £2,891 m of costs for the overall delivery of Sea Link and to maintain the COAE threshold at 5%.

## Direct construction costs

3.7 Based on the evidence submitted to us in the Sea Link PA and subsequent requested information, we consider that the main EPC contract costs for Sea Link have been sufficiently tested through the market with robust competitive processes and do not propose any direct cost disallowances against the converter or cable packages.

3.8 In addition, the converter and cable package costs appeared appropriate for the scope of work in benchmarking comparisons, giving us confidence that the submitted costs are broadly reasonable and supportable.

3.9 The results of this assessment provide confidence that the proposed costs are broadly reasonable and reflective of the requirements of the project, with no material cost concerns around the main converter and cable packages.

**Kiln Lane**

3.10 Based on the evidence submitted to us in the Sea Link PA and subsequent requested information, we consider that the costs attributed to the Sea Link portion of the Kiln Lane substation are broadly reasonable and efficient, and reflective of the requirements of the project. Accordingly, our minded-to position is to allow the £25.6m of costs requested as submitted.

3.11 Accordingly, our minded-to position is to allow the £2,249.7m of direct costs requested for the above packages as submitted.

## Other direct EPC costs (unlet scope)

3.12 In addition to the main converter, cable and Kiln Lane EPC contracts, NGET has requested funding for a number of unlet EPC scope items (as of its PA submission), which were foreseen yet sit outside the awarded contracts. NGET has explained these activities were not included within the main EPC packages because further development work was required to define the scope and resolve technical uncertainties.

3.13 The submission notes that, while these activities are necessary to support the safe and compliant delivery of Sea Link, they had not been sufficiently defined at the time the main contracts were procured and therefore remain outside the existing contractual arrangements. NGET stated that, where appropriate, it would seek to incorporate additional scope through contract variations where this represented an efficient delivery approach, with any remaining activities procured directly through the market in a cost-efficient manner.

3.14 NGET has requested £170.8m in respect of unlet EPC scope. This includes transport and logistics costs, insurance premiums, feeder protection and control upgrades, permanent wastewater licences, enabling works and utilities connections, UXO surveys and remediation activities, archaeological investigations and mitigation, and contract adjustments. We have assessed each category of cost individually.

3.15 While we are minded to allow a number of these costs within the ex-ante allowance, our assessment has identified certain categories where the costs remain too uncertain to be funded upfront and are more appropriately addressed through the proposed AUCR.

3.16 In addition, we are minded to allow £91.2m and disallow certain costs where we do not consider recovery from consumers to be justified, these are set out below.

**Archaeological investigations and mitigation**

3.17 NGET has requested £51.7 m of funding for archaeological investigations and mitigation activities. NGET explains that these costs relate to extensive archaeological works across the project, including site strip, map and record activities, trial trenching, archaeological supervision of construction activities and associated mitigation measures. It additionally requested a cost reopener to apply to these activities, in recognition of the remaining uncertainty around their scope and extent.

3.18 While we recognise that archaeological investigations will be required to facilitate construction of the project, we consider there remains significant uncertainty regarding the final scope, extent and efficient cost of these activities.

3.19 Given the evolving nature of the archaeological requirements and the limited certainty over the level and nature of work that will ultimately be required, we do not consider it appropriate to provide ex ante funding for these costs at this stage.

3.20 We are therefore minded to remove the full requested allowance of £51.7 m from the upfront project allowance. In our view, any future funding request relating to archaeological management activities should be considered through the AUCR, which would allow costs which can be justified as necessary and efficient to be assessed against the scope actually required and supported by robust and comprehensive evidence at the appropriate time, including the potential for independent assurance. This is discussed further below.

**Offshore and onshore UXO surveys, inspection and remediation**

3.21 NGET has also requested £27.9 m of funding for offshore and onshore UXO surveys, inspection and remediation activities. NGET states that these activities include UXO surveys, target identification, inspection, treatment and disposal activities necessary to enable project construction. NGET explains that the scope remains highly dependent on the outcome of ongoing surveys and investigations and, therefore, was not included within the main EPC contracts. It additionally requested a cost reopener to apply to these activities, in recognition of the remaining uncertainty around their scope and extent.

3.22 We acknowledge that UXO investigations and remediation may be required to facilitate delivery of the project. However, we consider there remains substantial uncertainty regarding the volume of UXO items requiring inspection, the extent of any remediation works and the appropriate mitigation measures that may ultimately be required. As a result, we do not consider the current evidence provides a sufficiently robust basis for ex ante funding of these costs. We are therefore minded-to remove the full requested allowance of £27.9 m from the upfront project allowance. Consistent with our approach to other highly uncertain costs, we consider the Uncertain Cost Reopener to be the more appropriate funding route for costs associated with these activities which can be justified as necessary and efficient, allowing any future funding request to be assessed against the actual scope of works undertaken and the efficient costs required, with the potential for independent assurance. This is discussed further below.

### Contract changes and adjustments

3.23 We are minded-to disallow NGET’s requested £0.515m for the GIS delay compensation claim under contract changes and adjustments. The evidence provided indicates that the claim arises from a delay caused by an employer-risk event under the relevant contract. As NGET is contractually liable for the resulting compensation claim, we consider it appropriate that these costs are borne by NGET in line with the agreed contractual risk allocation, rather than recovered from consumers. Accordingly, we do not consider it appropriate to include these costs within the allowed project costs.

## Direct non-EPC costs

3.24 The direct non-EPC costs for Sea Link include categories such as sustainability initiatives and BNG initiatives.

### Sustainability initiatives

3.25 NGET has requested £23.1 m for sustainability initiatives, comprising of a £19.6 m Sustainability Implementation Fund and £3.5 m of Carbon Reduction and Resource efficiency initiatives (CEEQUAL). This includes sustainability initiatives identified through supply chain, carbon reduction initiatives, and resource efficiency initiatives.

3.26 We recognise the potential benefits that sustainability initiatives may deliver and acknowledge NGET's ambition to improve environmental performance across the project. We also note that NGET has provided additional information on the derivation of the proposed allowance, including the use of carbon value benchmarks and other high-level estimating assumptions. However, a significant proportion of the requested funding remains associated with initiatives that are not yet fully defined, resulting in considerable uncertainty regarding the scope of activities, expected outcomes and efficient level of expenditure. While the information provided presents a reasonable case for the potential benefits of a sustainability fund, it provides less evidence of a clearly defined investment need, the efficiency of the proposed expenditure, or the value that consumers would be expected to receive from the requested allowance.

3.27 Given the current level of uncertainty, we do not consider there to be sufficient evidence to justify ex-ante funding of the proposed sustainability initiatives, the scope of many of the proposed initiatives remains immature and there is limited evidence demonstrating the need for specific interventions, the efficient level of expenditure required, or the benefits that consumers can reasonably expect to receive. We are therefore minded-to remove the £19.6 m Sustainability Implementation Fund from the requested allowance.

3.28 Notwithstanding our minded-to position, we welcome stakeholder views on this. In particular, we invite NGET to provide any further evidence through consultation to support the need for the proposed funding, including more detailed information on the initiatives envisaged, their expected costs, anticipated outcomes, and any supporting cost-benefit analysis demonstrating value for consumers. We will consider any additional evidence received before reaching our final decision.

**BNG**

3.29 NGET has requested £19.9 m for BNG activities. The requested funding comprises costs associated with the delivery of biodiversity units required to meet BNG obligations, together with funding for additional BNG initiatives beyond the identified minimum requirements. NGET states that these costs are intended to support the project's environmental commitments and ensure compliance with relevant biodiversity obligations arising from project development and consenting requirements.

3.30 We recognise the benefits that BNG activities can deliver and note that NGET will be required to comply with applicable BNG requirements, and that biodiversity mitigation and enhancement measures may be required as part of project delivery. However, based on the evidence currently available, we consider that the proposed BNG costs remain at a relatively immature stage of development and are subject to a significant degree of uncertainty. In particular, there remains uncertainty regarding the final BNG solution, the extent to which biodiversity units will be delivered directly or secured through third parties, the associated contractual arrangements, and the efficient costs that will ultimately be incurred. We therefore do not consider there to be a sufficiently robust basis for providing ex ante funding for these costs at this stage.

3.31 Consistent with our approach to other costs where the final scope, delivery model and efficient cost remain significantly uncertain, we do not consider it to be in consumers’ interests to provide upfront funding for the requested BNG allowance. While we recognise that NGET may ultimately incur costs to meet its obligations, the information currently available does not provide sufficient certainty regarding the delivery approach or the efficient level of expenditure. We are therefore minded-to remove the full £19.9 m BNG allowance from the requested ex ante funding.

3.32 We consider that costs associated with complying with BNG requirements are more appropriately addressed through the AUCR in development, where funding requests can be assessed against a more mature scope and supported by evidence of the obligations incurred, the delivery solution adopted and the efficient costs required to meet those obligations. This would allow funding decisions to be made when there is greater certainty over the final BNG arrangements and associated expenditure. This is discussed further below.

**Marine restoration**

3.33 NGET has requested £6.9 m for marine restoration activities. In its submission NGET emphasised the value and increasing awareness of the importance of environmental restoration, including in the marine environment, underpinned by existing requirements and appropriate commitments referenced, and its significance to project stakeholders. We consider NGET has taken a structured approach to assessment of alternative options to delivering marine restoration benefits, and based on the information submitted to us has taken reasonable steps to ensure efficiency of costs. Noting the significance of Sea Link, we are therefore minded to allow the costs as requested, subject to NGET providing suitable evidence confirming how the expected benefits of the schemes align to the requirements and commitments it has referenced.

## Indirect costs and risk

3.34 The indirect costs include project management costs including personnel cost, engineering, specialist support, mobilisation costs and ASTI overhead costs.

### Indirect costs

3.35 Our assessment indicates that the project specific CAI costs are broadly in line with relevant benchmarks and are proportionate when measured against direct EPC costs. On that basis we are minded to allow [redacted] of the total requested amount of [redacted].

3.36 We are minded to remove [redacted] of costs requested for ASTI Overheads as further work is already in progress with NGET to improve our understanding of these costs and the efficiencies associated with implementing an ASTI programme office. We are considering the option of funding eligible, efficient overhead costs under the AUCR.

### Risk funding

3.37 We have been consistent and clear that we would typically expect ASTI projects to be funded to a P50 level of confidence; we judge this to typically be the most appropriate level of upfront risk funding given the risk protections offered within the wider ASTI framework and the RIIO price control. We consider it important to ensure that there is a clear incentive on the TOs to proactively manage project risks and seek to realise opportunities without being provided with excessive levels of comfort at a cost to consumers. Upfront risk funding at the P50 level of confidence is therefore intended to drive cost discipline.

3.38 To confirm suitability and proportionality of the requested risk funding, we also compare the risk funding request with our expected P50 level range for efficient risk expenditure as a percentage of total project cost based on comparative projects.

3.39 Upfront contingency funding is only one element of the mechanisms provided to manage risk under the ASTI framework within the RIIO price control. It sits alongside the sharing factor under the Totex Incentive Mechanism (TIM) whereby any over- or underspend will be shared between the TO and consumers, and uncertainty mechanisms, notably the COAE mechanism in Part E of SpC 3.41 for material events outside of the TO's reasonable control which the TO, could not have economically and efficiently planned a contingency for.

3.40 The COAE mechanism sits alongside and complements ex ante contingency funding which provides an allowance informed by probabilistic analysis to manage a pool of identifiable project risks, in contrast to eligible COAE events which would be funded in full, where they meet the qualifying criteria and the applicable materiality threshold.

3.41 NGET requested [redacted] of ex-ante risk funding for Sea Link, based on its modelled P80 confidence level.

3.42 Whilst we recognise that Sea Link may have greater complexity than a conventional transmission project due to its complex offshore nature and it crossing the Thames Estuary, we have not seen justification for a P80 level of funding for Sea Link which if allowed, would increase the level of upfront funding borne by consumers and increase the potential for allowances to exceed efficiently incurred outturn costs. We consider a P50 allowance, with the TIM sharing factor and other protective mechanisms available within the ASTI framework to manage variations from this, represents a balanced outcome.

3.43 The requested P80 level is also notably above the level that we would typically expect and represents a significantly larger financial cushion, to consumers' detriment.

3.44 We note NGET highlights the time criticality of the programme as a factor in its requested increased level of risk funding. While we recognise the significant acceleration benefits of the project, we have not seen specific evidence of particular delay mitigation actions driving the need for higher ex ante contingency funding. We therefore do not consider a need to provide upfront funding for the project at the requested P80 level has been demonstrated.

3.45 We also do not agree with NGET's approach to include an allowance for identified COAE risks within the ex-ante contingency allowance. NGET has identified 12 risk events which it considers may qualify for treatment under the COAE mechanism. Through Risk ID [redacted], NGET has sought to capture the potential probabilistic cost exposure of these risks before they meet the COAE threshold. NGET did this on the basis that it considers this provides reasonable funding for risks of this nature, with costs above this level being recoverable through the COAE mechanism.

3.46 We consider that COAE risks should relate to low probability events with a material impact and a clearly identified trigger, and are intended to be addressed through the COAE mechanism should those events occur, rather than reflected in ex ante funding.

3.47 The inclusion of costs associated with risks of a COAE nature within the ex-ante QCRA may result in overlapping regulatory protection for the same underlying uncertainty. The inclusion of high-impact tail risks in a probabilistic representation could also skew any resulting contingency allowance, even where it is capped below the threshold value.

3.48 We consider this treatment to be consistent with the intent and purpose of the COAE mechanism and threshold. The threshold is intended to ensure that TOs retain an incentive to manage lower-value impacts efficiently, whilst providing protection against exceptional qualifying events of sufficient magnitude. We therefore do not consider it appropriate to provide ex ante funding for identified COAE risks within the contingency funding, even below the COAE threshold. Where a qualifying event exceeding the threshold occurs, NGET may seek funding through the COAE mechanism. Where an impact remains below the threshold, the risk appropriately remains with the TO to manage. Funding these risks upfront would introduce an additional layer of protection beyond that envisaged by the ASTI framework.

3.49 We therefore do not consider it appropriate to provide ex ante funding for this risk ID [redacted] As described earlier, the purpose of the threshold is to allocate responsibility for lower-value qualifying events to the TO to manage and maintain incentives for efficient risk management. In general, providing contingency funding specifically for a COAE-type event failing to meet the threshold would effectively compensate NGET for the operation of the threshold itself. However we do recognise there may be circumstances where a COAE-type risk would not be expected to exceed the higher 5% threshold under any scenario. In those cases it may be appropriate to include it in a probabilistic assessment, or consider if an alternative route to funding is more appropriate.

3.50 We are therefore minded to remove Risk ID [redacted] in full, from the ex-ante risk allowance. NGET estimated a P50 allowance of approximately [redacted] and a P80 allowance of approximately [redacted] for this risk when applying its proposed 0.65% COAE threshold. We will consider views and evidence relating to risk exposure and incentives manage risk efficiently, and the interaction between the COAE threshold and ex ante funding through consultation.

3.51 In addition, we are minded to remove [redacted] from the contingency allowance associated with residual marine installation risks. NGET provided additional information through the assessment process which gave greater clarity on the contractual treatment of weather exposure, vessel availability and large vessel access and delivery risks, and indicates that risk has been mitigated or transferred to the cable contractor where possible. However, the evidence provided does not sufficiently demonstrate how the remaining contingency has been recalibrated following contract award or how it reflects only NGET's residual exposure after allowing for contractor pricing and contractual risk allocation. In particular, NGET has not adequately demonstrated how overlap between weather, vessel availability, burial performance, installation productivity and large vessel access and delivery risks has been avoided, or how correlation between these risks has been treated within the QCRA. We therefore consider that there remains a material risk that the requested contingency duplicates allowances already reflected in contractor pricing. We note that the current marine installation risk adjustment has been calculated using a factored P80 value. This reflects the information available at the time of assessment, as the corresponding P50 figure was not readily available ahead of consultation. We intend to update the final figure in our final decision using the appropriate P50 value.

3.52 Following these adjustments, we remain minded to fund Sea Link at a P50 confidence level, consistent with our general approach to the efficient ex-ante funding of ASTI project risks. Our proposed P50 position retains funding for ordinary residual project risks, while removing Risk ID [redacted], and the insufficiently justified element of marine installation contingency. We are therefore minded to reduce the requested risk allowance by [redacted] and provide [redacted] of ex ante funding for Sea Link in relation to risk, and will consider views and evidence submitted in response to this consultation.

## Reopeners

3.53 NGET has requested five specific cost re-openers without a qualifying materiality threshold where significant uncertainty remains at the point of PA such that they are not best managed through upfront contingency funding.

3.54 These are:

- PAMs
- OHL re-stringing for the Richborough to Canterbury line
- Hedging of the multi-currency contracts
- Archaeology
- UXO

3.55 We see a role for the AUCR in protecting consumers and TOs from over- or under-spend in areas of significant and necessary uncertainty at the point of PA, where the TO can demonstrate there is a need for such a mechanism, and for costs to be set later, and demonstrated it is efficient and in consumers' interests to provide this and not reflect them in ex ante project allowances.

3.56 We are minded to include the 5 proposed re-opener items above as Eligible Cost Areas within the AUCR under development and consider re-opener submissions for these items at the appropriate time, as outlined below. Any submission under this mechanism would be subject to detailed scrutiny, including robust justification of the need for the expenditure, evidence that there is no duplication with other allowance mechanisms or funding sources, including risk funding, or incentive payments, and evidence that the costs have been incurred efficiently and economically, with appropriate independent assurance or other supporting evidence as required to justify the request. For the avoidance of doubt, COAE-type events related to these areas would remain subject to the eligibility and applicable materiality thresholds under the COAE mechanism, and not superseded by the AUCR. Other consumer protections may be applied as we consider necessary, including provisions such as a materiality threshold or a cap where appropriate, which we may define in establishing the mechanism for the Eligible Cost Areas.

3.57 Further description of the 5 cost areas is set out below.

## PAMs

3.58 The existing supply chain environment is driving the need for PAMs on several projects, including Sea Link. NGET stated that suppliers have generally been unwilling to commit to fixed long-term pricing and contractual arrangements for these aspects of the project. NGET is therefore seeking the inclusion of PAMs in a reopener, enabling allowances to be adjusted where specific commodity prices deviate significantly from the prevailing rate of inflation. NGET is looking for PAMs cost adjustments to be addressed through a symmetric re-opener to prevent excessive allowances or shortfalls. This would also mean consumers would gain should inflation decrease, and commodity prices come down.

3.59 We consider it is efficient and in consumers' interests on Sea Link to allow funding requests for eligible, efficient costs driven by PAMs to be requested under the AUCR, allowing the flexibility for allowances to be adjusted based on defined commodity price indices, for specific costs in contracts between the TO and supplier. This would increase allowances if commodity prices increase or decrease allowances if commodity prices decrease.

3.60 This approach prevents consumers from incurring unnecessary costs and ensures where costs reduce savings are passed on. It also provides assurance to NGET that there is a mechanism in place for it to request further funding if required under these mechanisms, where efficient and justified.

3.61 We are minded to approve the indices proposed by NGET for Sea Link, as specified in relation to the relevant converter and cable contracts, and identified in its PA submission. However, any future adjustment under the mechanism would remain subject to evidential requirements. This re-opener will allow NGET to submit a further funding request for Sea Link where there is incurred cost via PAMs, as specified in relation to the cable and substation contracts.

3.62 We will be assessing whether these costs are reasonable and efficient, therefore we expect this to be evidenced by supporting information such as invoices, question and answer logs, and relevant price indices for PAM-related costs from Sea Link contractors. NGET would need to demonstrate at minimum, that the relevant costs were incurred, that the approved indices have been applied in accordance with the contractual arrangements, and that the resulting adjustments are consistent with the scope and operation of the approved PAM mechanism, in addition to other information as we may require. NGET would similarly be required to bring forward a submission under the mechanism to adjust allowances should costs decrease from baseline estimates.

## Hedging and FX uncertainty

3.63 NGET has requested a reopener for hedging and foreign exchange uncertainty to address the potential impact of exchange rate movements on project costs. NGET states that this reflects the significant proportion of Sea Link's converter and cable contracts that are denominated in foreign currencies and the potential exposure to movements in exchange rates between contract award and delivery. The proposal is intended to protect both NGET and consumers from material FX volatility outside of NGET's direct control.

3.64 We recognise that Sea Link is exposed to FX risk given the international nature of the HVDC supply chain and that an efficient approach to managing this risk may reduce overall costs to consumers. We therefore consider that there may be merit in a targeted uncertainty mechanism where costs are demonstrated to arise from FX movements associated with efficient project delivery and are minded-to include hedging activities as an Eligible Cost Area under the AUCR.

## OHL re-stringing for the Richborough to Canterbury line

3.65 We consider it appropriate to manage efficient and justified costs associated with the OHL re-stringing for the Richborough to Canterbury line via the AUCR, in view of the uncertainty surrounding the extent and timing of the associated activities and costs. We are therefore minded-to allow requests for costs justified as necessary and efficient associated with these activities to be submitted under the AUCR.

## Archaeology

3.66 NGET requested both ex ante funding (£51.7m) and a 0% materiality re-opener for costs related to management of archaeological discoveries. Having considered the evidence and further justification for these costs, we are minded not to provide ex ante funding for these activities and instead to allow activities related to management of archaeological discoveries as an Eligible Cost Area within the scope of the proposed AUCR mechanism, enabling NGET to apply for efficient and justified costs of these activities to be assessed at the appropriate time.

3.67 For the avoidance of doubt, the intent of this mechanism is to manage uncertainty around the scope and volume of activities directly related to the management of any discoveries, not costs associated with consequential wider impacts e.g. to the programme, which risk funding mechanisms are intended to manage.

3.68 We recognise that, despite extensive surveys and pre-construction investigations, archaeological discoveries and the resulting mitigation requirements can remain uncertain until construction activities are underway. The scale, nature and cost impact of any findings are therefore inherently difficult to estimate with confidence at this stage. We therefore consider that an ex-post assessment through AUCR a more suitable approach than providing ex ante funding.

3.69 Any future application would be subject to clearly defined eligibility criteria, robust supporting evidence and appropriate assurance requirements, which may include independent assurance. NGET would also be required to demonstrate that any costs sought were entirely additional and there was no double funding with other allowances or funding mechanisms, including risk funding.

3.70 We are mindful of the need to ensure consumers are protected in relation to reopeners offered. In view of the absence of ex ante funding, we are not currently minded-to set a threshold in relation to this cost area but seek views from respondents on whether existing consumers protection measures are sufficient, particularly in the event a high volume or significant nature or materiality of discoveries. We would expect NGET to demonstrate that alternative options or mitigations have been adequately explored and seek views on whether an upper cap, or threshold for further analysis demonstrating the proposed approach remains the most appropriate should be established.

## UXO

3.71 NGET requested both ex ante funding (£27.9m) and a 0% materiality re-opener for potential UXO costs. Having considered the evidence and further justification for these costs, we are minded not to provide ex ante funding for these costs and instead to allow justified activities related to efficient management of UXOs as an Eligible Cost Area within the scope of the proposed AUCR mechanism, enabling NGET to apply for efficient and justified costs of these activities to be assessed at the appropriate time.

3.72 For the avoidance of doubt, the intent of this mechanism is to manage uncertainty around the scope and volume of activities directly related to the management of any discoveries, not costs associated with consequential wider impacts eg to the programme, which risk funding mechanisms are intended to manage.

3.73 We recognise that, despite the investigations undertaken to date, the presence, extent and associated mitigation requirements of UXO cannot be established with certainty ahead of construction. As a result, we consider that the uncertainty is better managed through an ex-post mechanism, which would allow efficient and well justified costs to be assessed if and when they materialise. Any future application would be subject to clearly defined eligibility criteria, robust supporting evidence and appropriate assurance requirements, which may include independent assurance. NGET would also be required to demonstrate that any costs sought were entirely additional and there was no double funding with other allowances or funding mechanisms, including risk funding.

3.74 We are mindful of the need to ensure consumers are protected in relation to reopeners offered. In view of the absence of ex ante funding. We are not currently minded-to set a threshold in relation to this cost area but seek views from respondents on whether existing consumer protection measures are sufficient, particularly in the event a high volume of discoveries. We would expect NGET to demonstrate that alternative options or mitigations have been adequately explored and welcome views on whether an upper cap, or threshold for further analysis demonstrating the proposed approach remains the most appropriate should be included.

## Cost And Output Adjusting Event

3.75 We have considered NGET's proposed COAE threshold of 0.65% (equivalent to £20.8m) intended for very low probability, very high impact events. We have not seen specific evidence to justify its lower proposed threshold of 0.65%.

3.76 We are therefore minded-to maintain a COAE threshold at 5%, in line with the default position in our current guidance. We consider that the 5% ASTI COAE threshold is an appropriate threshold for an ex-post adjustment, striking a fair balance between protecting consumers and TOs from windfall gains or unfunded costs and financeability risk, whilst still incentivising efficiency, through the application of the TIM.

3.77 We have noted NGET's concern that given Sea Link's materiality, a 5% threshold could leave NGET with significant remaining exposure if multiple risks were to arise that fell just below the threshold, although note that such occurrences should be unlikely by the low probability nature of these risks. We also note the protections offered by the TIM, under which the sharing factor shields NGET from at least 75% of any efficient overspend across its portfolio, meaning its exposure for a COAE-type risk would be no more than £36.1m of the £144.5m threshold.[16]

3.78 We welcome views and any further evidence on whether an alternative threshold is justified in this case and the most appropriate basis on which an alternative threshold might be set if so, including whether we should direct that material risks should count cumulatively towards the threshold on Sea Link, or whether any specific, material risks may merit different treatment such as a lower threshold. Respondents proposing a threshold below 5% may provide evidence demonstrating the impact of alternative thresholds on the allocation of risk between consumers and NGET.

[16] The impact of any efficient overspend is moderated by the TIM, under which NGET would bear up to 25% of any efficient overspend, depending on its applicable sharing factor under that mechanism.

3.79 As discussed above in our position on risk funding, in general we do not agree with NGET's proposal to include COAE risks which do not reach the threshold in any ex ante modelling, as this would create overlapping regulatory protections.

3.80 We are not proposing to include the contribution of risk ID [redacted] in the risk allowance, which represents on an aggregated probabilistic basis, NGET's potential cost exposure up to the threshold where one or more of the events it has identified for potential COAE treatment occur, but the applicable COAE materiality threshold is not exceeded. As indicated above, we do not consider it appropriate to provide ex-ante contingency specifically to compensate NGET for the operation of the COAE materiality threshold, which forms part of the allocation of risk between consumers and the TO. Where an event satisfies the applicable COAE requirements and exceeds the materiality threshold, NGET may seek an adjustment through the COAE mechanism. Where that materiality requirement is not met, any resulting expenditure remains subject to the project's normal cost and incentive arrangements, including the TIM. We are therefore minded-to remove Risk ID [redacted] from the ex-ante QCRA and to set the risk funding as outlined above.

3.81 We recognise NGET does consider adjustments would be needed to the risk pot to reflect the final COAE position. While in general we do not consider that COAE risks should contribute to calculations for upfront contingency funding, given the nature of these high impact low probability risks, and the availability of protections through the COAE mechanism and the TIM, we recognise there may be circumstances where a higher COAE threshold could corresponds to a case for increased ex ante risk funding, notably in the case where identified COAE-type risks are not expected to reach the threshold even at their maximum impact, there may be a case for them to be modelled probabilistically or to consider if an alternate route to funding is more appropriate.

3.82 We will consider the extent of potential exposure to COAE-type events and interactions with upfront contingency funding in reaching our final decision, including any views or evidence put forward in response to this consultation.

3.83 This does not constitute a determination that any of NGET's identified events would qualify as a COAE. Eligibility would be assessed against the applicable licence and guidance requirements if and when NGET submits a claim following an event.

3.84 Our approach does not exclude ordinary residual project risks from ex-ante contingency. Such risks remain reflected within the P50 allowance where appropriately evidenced and efficiently modelled.

## Acceleration measures mechanism

3.85 NGET proposed inclusion of a UIOLI mechanism to fund measures with the potential to accelerate the delivery of Sea Link to 2030, in line with Clean Power

2030 goals. It cited a non-exhaustive list of activities which it envisaged could deliver additional programme acceleration, but for which there was not sufficient certainty of their expected benefits at the time of PA submission for upfront funding.

3.86 NGET already faces strong incentives to accelerate delivery relative to its ODI date and has sought to target a 2030-compatible programme through its development of the project to date. We agree with the importance of ongoing exploration of further opportunities for acceleration, to identify additional measures which NGET or its contractors may pursue which can deliver acceleration benefits as Sea Link progresses, particularly where these may be high materiality.

3.87 We therefore consider that there may be justification for additional funding to enable further acceleration measures, in view of the particular significance of Sea Link and its substantial expected consumer benefits if it can be accelerated.

3.88 We do not consider it is necessary or proportionate to establish a new UIOLI mechanism for Sea Link acceleration measures. Rather, we are minded to include additional acceleration measures as an Eligible Cost Area under the AUCR in development for Sea Link, up to NGET's requested cap of [redacted].

3.89 For an action to be eligible for consideration under this mechanism, we propose NGET would need to demonstrate sufficient and robust evidence that:

- it is in consumers' best interests, and is expected to deliver benefits to consumers, considering the expected benefits and proportionality of any costs or risk;
- it is entirely additional, and has not been, or is not, already funded through existing allowances or via another mechanism. This includes, but is not limited to, the project's contingency funding which reflects mitigations of delay and realisation of opportunities, and NGET’s delivery incentive for the project, which is intended to reward early delivery; and
- suitable consumer protection measures are in place to minimise consumers' exposure to risk, including its approach to benefits monitoring during and after delivery, and how the company will respond to scenarios where it becomes clear the anticipated benefits are no longer expected to materialise.

3.90 We expect in practice this will mean the mechanism is focused on high materiality actions for which the benefits case becomes clear after PA. In this context, we are minded to apply a cost materiality threshold for actions to be funded under this mechanism and consider activities of [redacted] could be an appropriate threshold in view of NGET's existing delivery incentives and other available funding. We are seeking views and evidence on an appropriate threshold and other consumer protections through this consultation.

3.91 Any actions which NGET seeks funding for under the mechanism would be subject to an ex-post assessment, considering eligibility, cost efficiency, consumer protections and benefits realisation. Eligibility and cost allowances would be formally confirmed as part of the ex-post assessment, although we would expect NGET to submit robust analysis and justification of the expected benefits, and quantified cost risk of its proposed actions to Ofgem ahead of its decision to proceed with an action. This should include, where relevant, evidence such as (but not limited to) cost-benefit analysis, quantified estimates of expected constraint savings, assessment of any programme schedule benefits, with impact on the Project's ODI, and supporting analysis demonstrating the proposed action is expected to deliver value for consumers and any quantified associated risk.

3.92 We reserve the right to require or apply independent assurance to scrutinise NGET's assessment and decision-making for actions envisaged under this mechanism. We are open to engaging further with NGET through its assessment and expect it to bring forward any material items for consideration at the appropriate time.

3.93 We recognise that, in some circumstances, there may be remaining uncertainty as to the expected acceleration benefits at the point where NGET commissions an action. In these cases, we would nonetheless expect NGET to provide evidence of a strong expected benefits case, underpinned by robust supporting evidence and analysis in support of its eligibility under the mechanism, demonstrating and quantifying the expected benefits and potential downside risk associated with the action, based on robust evidence and well-founded assumptions, at the time of taking the decision to proceed with an action. We may commission or require independent assurance of its assessment process, as well as implementation and monitoring in determining its eligibility and efficiency.

3.94 We expect NGET to monitor delivery progress for actions it is taking forward under this mechanism and take steps to mitigate any cost risk to consumers as far as possible, particularly in the event its monitoring indicates that the expected benefits of an action are unlikely to be realised or significant changes in cost are anticipated from its initial submission.

3.95 We will expect it to report to Ofgem actions undertaken, costs incurred and benefits realised to allow the scope and impact of measures under the mechanism to be monitored and evaluated. We are seeking views from stakeholders on the benefits and design of this mechanism, notably any consumer protections which should be incorporated.

## Summary of proposed ASTI Allowances

3.96 In summary, we are minded-to allow £2891.5m of costs for the overall delivery of Sea Link. This includes £2,340.9m on direct EPC costs (excl. Risk), £86.8m on direct non-EPC, £463.8m on indirect costs and risk.

## Summary of submitted and proposed funding

3.97 Table 1 below summarises the proposed cost allowances under the ASTI Reopener for Sea Link.

**Table 1: Summary of proposed cost allowances under the ASTI Re-opener for the Sea Link Project (2023/24 and 2018/19 prices)**

| Cost Category | Submitted Cost (£) (2023/24 prices) | Proposed Adjustment (£) (2023/24 prices) | Subject to AUCR | Proposed Allowance (£) (2018/19 prices) | Proposed Allowance (£) (2023/24 prices) |
|---|---|---|---|---|---|
| **Direct Costs** | £2,546.8m | -£ 119.1m | **Archaeology**<br>**UXO**<br>**OHL**<br>**BNG** | £ 1,949.3m | £ 2,427.7m |
| **Indirect Costs, P50 and Risk** | £650.2m | -£186.4m | **PAMS**<br>**Hedging** | £ 372.5m | £ 463.8m |
| **Total ASTI Re-opener Funding** | **£ 3,197.0m** | **-£305.5m** | **As above** | **£ 2,321.8m** | **£ 2,891.5m** |
| **COAE Threshold** | **0.65%** | **+4.35%** | | **5%** | **5%** |

# 4. Conclusions and next steps

4.1 We welcome your general responses to this consultation and to our specific questions set out in Chapter 3. Please send your response to: MajorProjects.LTPD@ofgem.gov.uk. The deadline for responses is 29th September 2026. We aim to publish our decision in Autumn 2026.

## Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

# Appendix 1. Consultation Questions

Questions

Q1. Do you agree with our minded-to position on direct costs on Sea Link, specifically;

Q1.1 Do you agree with our minded-to position on direct construction costs?

Q1.2 Do you agree with our minded-to position on direct non-EPC costs?

Q1.2.1 Do you agree with our minded-to position on sustainability initiatives, BNG, and marine restoration costs?

Q2. Do you agree with our minded-to position on indirect costs on Sea Link?

Q3. Do you agree with our minded-to position on contingency funding on Sea Link, including our proposed treatment of COAE risks in view of other protections? Please provide any supporting information or evidence on the appropriate balance of risk between consumers and TOs, while incentivising risks to be managed to a level as low as practicable.

Q4. Do you agree with our minded-to position on the COAE threshold? If not, please provide any supporting information or evidence for any alternative approaches.

Q5. Do you agree with our minded-to position on Sea Link's re-opener requests, including our proposed treatment of costs associated with the 5 activity areas set out to be considered through the AUCR? Please provide any views on consumer protections which should be applied.

Q6. Do you agree with our proposal to use the proposed AUCR mechanism to fund justified further acceleration measures on Sea Link, in view of the substantial expected consumer benefits of accelerating its delivery?

Q7. Do you have views on any consumer protections which should be applied in relation to the mechanism for funding further acceleration measures, including setting a materiality threshold

# Appendix 2. Privacy policy

## Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

**1. The identity of the controller and contact details of our Data Protection Officer**

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

**2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

**3. Our legal basis for processing your personal data**

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

**4. With whom we will be sharing your personal data**

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data, then make this clear. Be a specific as possible.

**5. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')

**6. Your rights**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties

- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

**7. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

**8. Your personal data will not be used for any automated decision making.**

**9. Your personal data will be stored in a secure government IT system.** (If using a third-party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**10. More information** For more information on how Ofgem processes your data, click on the link to our "ofgem privacy promise".